U.B.C. Planning Papers

School of Community and Regional Planning

University of British Columbia
Vancouver, British Columbia

ISSN: 0828-2404

Urban Housing Problems and Housing Commercialization in China

Lijian Chen

CS #18
June 1988

UBC PLANNING PAPERS
Comparative Urban & Regional Studies #18

A paper delivered at The Canadian Asian Studies Association Annual Conference -- Windsor, Canada, June 9 - 11, 1988

Lijian Chen is a graduate student in UBC's School of Community and Regional Planning. He earned his Architecture degree at Tsinghua University in Beijing.

School of Community and Regional Planning
THE UNIVERSITY OF BRITISH COLUMBIA
6333 Memorial Road
Vancouver, B.C. Canada
V6T 1W5

90-05489/1

ABSTRACT

This paper presents an overview of urban housing problems and the issue of commercialization of housing in China. In brief, commercialization of housing is the introduction of the treatment of the housing stock as a commodity rather than a welfare good. The paper first examines the present systems of finance, rent payment and housing tenure. Current housing problems and their origin are then reviewed. Finally, the rationale for and obstacles to the promotion of commercialization of housing are identified. In order to solve urban housing problems and to provide better quality housing to all citizens, a policy of commercialization of housing is being viewed as a significant and feasible approach by the Chinese government. The government is determined to help solve aspects of the housing problems by promoting the commercialization of housing. However, many questions concerning how to carry out this process remain unanswered.

ACKNOWLEDGEMENT

Much appreciation is owed to Professor J. David Hulchanski, of the planning school at the University of British Columbia, for his comments on earlier drafts of this paper.

TABLE OF CONTENTS

I. Introduction 1

II. Housing Finance and Tenure in China 2

1. Housing Finance 2
2. Rental Payment 2
3. Housing Tenure 3

III. Urban Housing Problems and Their Origins in China 4

1. Housing Problems 4
2. Origins of Housing Problems 6

IV. Rationale for China's Housing Commercialization 8

1. Housing as a Commodity in a Socialist Economy 8
2. Experiences of Other Socialist Countries 9
3. Advantages of Housing Commercialization 10
4. Strategies of Housing Commercialization 10
5. Rent Reform 11
6. Subsidized Housing Sale 11

V. Obstacles to Housing Commercialization 13

VI. Conclusion 15

References 16

I. INTRODUCTION

Since 1978 China has been on an express train towards modernization and economic growth. Like many other widely acknowledged achievements, the efforts in the housing construction are notable. The year of 1979 was a turning point for housing investment and construction. From 1979 to 1984, the total investment in housing reached 70.075 billion yuan[1] (US$ 25.027 billion in 1984), equalling 65.5 percent of the total housing investment over the 35-year period from 1950 to 1984. Moreover, the completed housing floor space in the six years was 472.38 million square meters, 47.52 percent of the total over the previous 35 years (Lin 1986).

In spite of this achievement, the shortage of housing remains a major problem, particularly in the urban areas. In view of this shortage, the government recognizes that major reforms in housing policy, finance and management are necessary if residential investment is to be increased. In particular, many officials consider commercialization of housing as a potential part of the solution. This paper reviews the nature of the housing problem in China with a focus on urban housing issues and discusses the potential role for the commercialization of housing in China's housing sector.

The paper consists of six sections. After this introduction, Chinese housing finance and tenure are briefly summarized in order to introduce the Chinese housing system. Next, major housing problems are identified and their origins analyzed. Then, the rationale for proposing the commercialization of housing is discussed, and the obstacles to the commercialization are examined. In conclusion, some recommendations in favour of promoting the commercialization of housing are presented.

[1]Hereafter, an exchange rate of 3.7 yuans to US$ 1.00 is assumed.

II. HOUSING FINANCE AND TENURE IN CHINA

1. Housing Finance

Housing in a socialist state is usually viewed as a public good rather than a commodity. This was the position adopted when the Communist Party took power in China in 1949. Unlike most developed countries where household savings are the predominant source of funds for housing construction, urban housing development in China is financed primarily by the state as part of its capital construction budget. In principle, the state is responsible for the provision, allocation, maintenance and administration of all housing. These functions are performed by municipal housing bureaus and by work units (such as enterprises and institutions). Housing has not been a top investment priority in China. On the one hand, "socialist industrialization was seen as the most important task of economic planning"; on the other hand, "housing expenditure was classified as unprofitable -- as consumption of national income, rather than as productive investment" (Szelenyi 1983, p.24). Therefore, from 1950 to 1978, the average housing investment per annum amounted to only 1.5 percent of the GNP.

2. Rental Payment

Low rent levels and high public subsidies have been the dominant approaches to the provision and maintenance of housing in urban areas. A 1980 survey of the Wuhan city (in central China) revealed that an average household paid only 2.3 percent of monthly income for its housing (Carlson 1986). In the city of Tianjin (the third

largest city with 7,764,141 population in 1982), total rents per month average from 6 to 10 percent of family monthly income (Friedman 1983). The degree of subsidization varies from one city to another; but generally all urban households pay only a nominal amount for their housing.

3. Housing Tenure

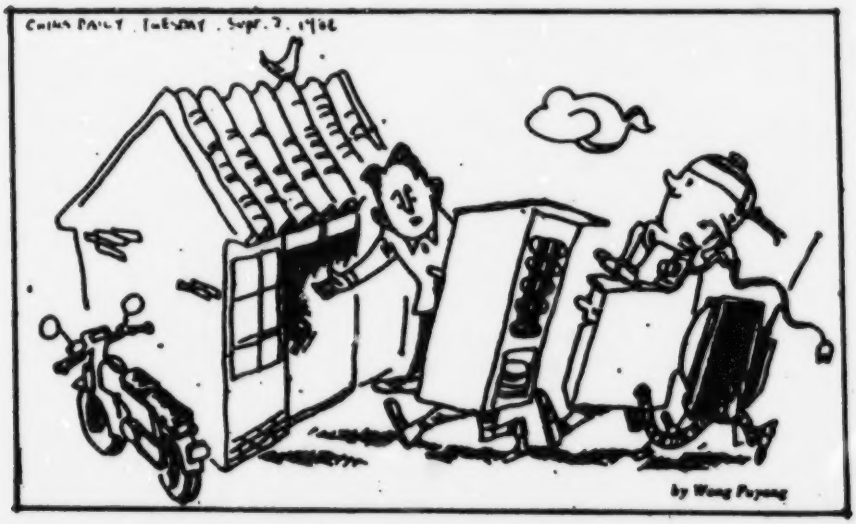
During the first decade following the 1949 change in government, privately-owned urban housing was largely transferred to public ownership. Former landlords and owners of private housing were allowed to maintain a certain amount of living space for their own use based on the size of the family, which is usually less than 100 square meters (Laurence 1981). Today, housing ownership and management can be categorized into three major types: municipally-owned housing under the management of the municipal bureau of realty; housing owned and managed by work units, including state-owned work units and collectively-owned work units; and private housing. The vast majority of the housing stock is owned and managed by the state-owned work units. The bulk of the state's housing investment (83%) also goes to this sector (Carlson 1986), which has become the major thrust of new housing development; whereas the collectively-owned work units receive much less funding for housing construction from the government. Consequently, urban residents who work in the state-owned work units obtain substantially more subsidies for housing from the government than those who work in the collectively-owned work units. Moreover, because of the characteristics of public ownership, the municipal bureau and the work units have the responsibility for housing maintenance and distribution.

III. URBAN HOUSING PROBLEMS AND THEIR ORIGINS IN CHINA

A considerable amount of new housing has been completed and a great deal of old housing rehabilitated in all major Chinese cities. It has been estimated that a total of 994.1 million square meters of new housing has been built from 1950 to 1984 (Lin 1986). However, urban housing still remains in short supply and the housing problem in general is becoming more acute.

1. Housing Problems

Shortage. Almost one-third of urban inhabitants are on waiting lists for a new house or for an improvement to their present dwelling. For example, in Shanghai, the average living space is less than 2 square meters per person (Sun 1984, p.79). Overcrowding is extensive in most cities. It is not uncommon to find that unmarried teenagers (16 years old or over) and their parents are not always able to have separate bedrooms. Another common problem is that thousands of couples are waiting for a room before they get married. The two cartoons below illustrate these housing problems.



Cartoon I. Groom: "Welcome to my soon-to-be wed's house: my fridge, washing machine, color TV...."

The best hour of the day.
Cartoon by Sun Yizeng reprinted from Beijing Daily.
(Note: The three testimonials on the wall read 'Advanced Worker', 'Model Teacher' and 'Good Student' respectively) 11. 9. 21. China Daily

Cartoon II. A family of four lives in one room as large as a king-sized bed.

Dilapidation. A great deal of the existing housing stock is very old and in urgent need of repair. Even worse, some dwellings are structurally unsound and in danger of collapse. In Beijing, for example, about 18 percent of the housing stock is rated as dilapidated. In Shanghai, about 10 percent of the living space is registered as being slum-like and a further 10 percent as dilapidated (Taubmann 1985).

Substandard. There are still many residents living in houses with virtually no running water and sewage. It is also common to find two or three families sharing one kitchen and bathroom. In Shanghai, many residents still live in garrets and attics.

Inequity. Although the average living space per urban resident has been increasing during the last few years, the percentage of households suffering from housing distress shows no indication of decline. This signifies growing disparities in housing supply. For example, housing problems are increasingly serious for those who are self-employed, or who not attached to specific work units. Another example is that workers in state-owned work units always get greater housing subsidies than those in collectively-owned work units regardless of their real needs.

2. Origins of Housing Problems

China's housing problems originate from various interrelated factors. Taubmann has summed up the reasons for the present housing problems in his article "Problems of Urban Housing in China". His summary finds a general agreement in Chinese literature:

> "Those regarded as most important [reasons] are: the appalling situation at the time when the People's Republic was established, the rapid population growth in the cities, a long period of accumulation favouring one-sidedly the productive and, above all, the heavy industrial sector, up to 1960 the erection of too numerous and too costly public prestige buildings, year-long disregard of building maintenance, lack of building material, inefficient and therefore uneconomic organization and working methods in construction administration and building industry" (1985, p.184).

Two other current trends also contribute to the increasing pressure over the housing situation. One is that the children of the baby-boom generation of the early 1960s have reached marriageable age. The number of married couples has increased rapidly in recent years. Another trend is the rapid migration of rural population to urban areas due to the advance of rural economic reform and its concomitant increase in

agricultural productivity.

More important, the low rent and high subsidy policy adopted in 1950s has created serious consequences such as poor housing conditions and inadequate new housing. Because rents are extremely low, necessary repairs are frequently deferred and, therefore, deterioration occurs more rapidly. Also, because the present system of rental payments does not cover the costs of housing construction, the urban housing sector can barely recover even a small part of its investment.[2]

[2] According to a recent study conducted by the Ministry of Urban and Rural Construction and Environmental Protection, the average monthly rent was 0.13 yuan (US 4 cents) per square meter of usable floor space. If proper provision for maintenance, administration and depreciation were included, the figure would be 0.63 yuan (US 17 cents) per square meter. If interest and taxes were included, the figure would be one yuan (US 27 cents), and if payment for land use, insurance and profit were included, the monthly rent would then be two yuan (US 54 cents) per square meter. According to this rate, assuming one household occupies an apartment unit of 30 square meters, it has to pay 60 yuans (US$ 16.2)for rent, which is about 60 percent of the monthly income of an average urban worker.

IV. RATIONALE FOR CHINA'S HOUSING COMMERCIALIZATION

The Chinese government has established an ambitious plan to double the current average 4 square meters per capita living space to 8 square meters by the year of 2000. This means that each family will have one complete dwelling unit of its own, large or small. This is no easy task. The necessity for more and better housing is clearly recognized by the government; however, it is unreasonable to expect that the state will invest a large amount of its scarce financial resources in the cities for housing construction and improvement when the resources are badly needed to achieve the proclaimed goals of the "Four Modernizations" -industry, agriculture, national defense, and science and technology. Taking into account the limited finances available for housing development and the severity of the current housing situation, the pursuit of investment efficiencies is the most feasible way to accomplish the ambitious goal of housing development. Clearly, this could only be fulfilled by reforming existing housing financing, management and construction. To be more specific, the gradual commercialization of housing is considered a necessary policy innovation in order to increase the amount of investment in the residential sector enough to improve living conditions and to solve present housing problems.

1. Housing as a Commodity in a Socialist Economy

In earlier socialism, housing was viewed as a welfare good rather than a commodity. It is now widely argued in China that this perception is untenable. In general, the socialist economy is a planned economy based on public ownership of the means of production. In addition to nationally planned production, however, commodity production and market exchange still exist. Moreover, although public ownership is a major component of the socialist economic entity, private and semi-private ownership of

the means of production are important supplements to the socialist economy. Therefore, like other commodities, it is argued, housing should also be considered as a commodity in order to realise its social value and market value. The history of housing development in China has proven that the government is incapable of assuming exclusive responsibility for the provision of housing if housing is still viewed as a public good. The current re-examination of housing policy in China has by and large led to the decision that housing should be treated as a commodity in the socialist economy. This ideological shift reflects the real meaning of the so-called "housing commercialization".

2. Experiences of Other Socialist Countries

The recent developments in housing in the socialist countries of Eastern Europe indicate similar changes in housing policies are taking place. For example, in both Hungary and Poland, rent reforms have resulted in the increase of rents in a multi-step fashion. Furthermore, housing construction funded by urban residents has gradually increased and played a more important role in the housing sector. Apart from public-built housing, the realization of families' own housing demands through their own incomes aided by substantial government subsidies has been highly encouraged. By doing so, the state and families contribute jointly to the financing of housing.

Another evident trend in Poland and Hungary is the increase of the owner-occupied housing sector, as well as cooperative housing construction, both of which result from the new state directives. As China is a developing socialist country, further study of many other aspects of housing policies and programs in the socialist countries in Eastern Europe will be certainly beneficial.

3. Advantages of Housing Commercialization

The promotion of commercialization of housing will benefit housing development in the following areas. First, it can alter the way in which housing construction funds circulate; therefore, state housing investment funds can be recovered to a certain extent and the rate of housing construction can be increased. Second, it can gradually change the composition of families' consumption so that excessive demand on other commodities can be reduced. Third, it can promote a sense of home ownership and an incentive to maintain and improve dwellings. As a result, housing units may last longer. Fourth, it can advance the concept of equity for the urban housing sector. Above all, by commercializing housing stock, "the urban housing sector could become financially more healthy and self-sustaining and less of a burden on the state's investment resources"(Carlson 1986, p.25).

4. Strategies of Housing Commercialization

Strategies of housing commercialization require a modification of the government's exclusive responsibility in providing housing for urban residents. First, the government should encourage all state-owned and collectively-owned work units as well as individuals to explore their financial potential for housing construction; second, the price system should be reformed; third, the sale of housing to individuals should be sanctioned to foster more widespread home ownership for urban residents; fourth, rents should be gradually readjusted upward from their present extremely low levels; fifth, an effective institutional system should be established to assist potential home buyers with housing loans or mortgages and to encourage their savings for housing.

5. Rent Reform

It is widely agreed that readjustment of the present rental system is the key element for the commercialization of housing. In the present low rent situation, people believe that it is not worth buying a house. Also, it is unfair that some people pay little rent for spacious dwellings and simultaneously receive more government subsidies which, according to the present subsidy policy, are direct proportion to the living space according to the present subsidy policy.

Ideally, monthly payments for rents should include: (1) housing depreciation, (2) maintenance fees and repair costs, (3) real estate taxes, and (4) interest on housing investment. Considering the low income of the majority in China, the increase of rental payments could only be exercised in a multi-step fashion. Meanwhile, a certain amount of government subsidy is still necessary. As people begin to expect an increase in their standard of living, it will benefit both the state and the individual to direct a greater proportion of their increasing incomes to housing investment.

6. Subsidized Housing Sale

In recent years, the Chinese government has authorized many cities to set aside a small portion of new housing stock for subsidized sale to the individual. This is still basically an experiment through which experience for further proposals can be obtained for commercializing housing.

Based on the income level of the majority, few people can afford to buy housing sold on a full cost recovering basis. In consideration of this fact, a subsidized housing sale program has been introduced. Typically, a prospective buyer pays one-third of the total cost of housing construction -- approximately 15,000 yuan, or about US$ 4,000 (Kim 1987), with the local authority and the buyer's work unit equally sharing the

balance. Although the individual only finances a small percentage of the cost, the state, at least, gains some return on its allocation of substantial and increasing investment in urban housing. More important, it encourages private participation in the process of alleviating the present housing problems.

The experiment shows that this kind of housing sale is very successful and may be expanded. Originally, there was some concern that all the housing units would not be sold because the subsidized price still seemed to be beyond the purchasing power of the average urban residents whose yearly income ranges from 900 to 1,000 yuan (US$ 243 to 270) (Sun 1984). To date, there are many prospective buyers on waiting lists for new homes. It has been proven that the sale of a limited number of new housing units benefits a few families but hurts none. However, in further study of possible alternatives for housing sale, the following warning made by Szelenyi deserves more attention:

> "It should be emphasized, nevertheless, that market methods could only be applied in restricted ways and with limited benefits, because the problems described above [housing shortage, substandard housing and housing inequity, etc.] occur even in the purest market economies" (1983, p.24).

V. OBSTACLES TO HOUSING COMMERCIALIZATION

The need for better housing takes on special significance in today's Chinese city development since there appears to be growing dissatisfaction over housing conditions. Since the government has shown an inability to meet the ever increasing demand for housing as a public service, the reform of the existing housing financing, management and construction policies is inevitable. The readjustment of the rental system and the experimental subsidized housing sale program are considered to be a suitable starting point. Even this first step, however, is beset with difficulties.

From an economic point of view, the need to reform the present low rent policy is apparent. Nevertheless, the change is a difficult political decision for the government to implement because raising rents or restructuring the rental subsidy program could mean vast modification to the economic system and generate fear that the beneficiaries of the present housing system will be hurt. To be more specific, the commercialization of housing will lead to the redistribution of benefits among various social groups. The difficulty is that decision-makers themselves are the ones who benefit most from the present form of housing policy.

With regard to the subsidized housing sale program, it is argued that moderate and low income groups are unable to participate in the program and will remain in intolerable housing conditions. In addition, many work units are reluctant to contribute their subsidies because their available funds could be more productive in other areas. Other work units are financially constrained and cannot help their employees. Thus, it is argued by some that such a strategy cannot over the long time be too successful.

Most important of all, the change from the distribution of housing by the housing bureau or work units to the sale of new housing is a very complicated issue

which requires simultaneous alterations to various political and economic departments such as the national socio-economic planning, financial, resource and banking departments. Therefore, this easier-said-than-done housing policy reform measure has so far progressed in a gradual and cautious manner.

VI. CONCLUSION

The foregoing presentation indicates that the housing problem is very acute in China. The recently-initiated strategy of the commercialization of housing has not yet resulted in any concrete improvement. However, it is clear that the government is determined to solve the housing problem. This intention is stated in the Seventh Five-Year Plan (1986-1990):

> "We should commercialize housing in the cities and towns and speed up the growth of residential construction industry, making it a pillar of the national economy. ... (Carlson 1986, p.1)".

Commercialization of housing in urban areas requires systematic research and a comprehensive plan because it involves the participation of various government departments, work units and individuals. The approach of "experiment, feedback, correction" seems insufficient for such a complex issue. Macro research on all the relevant factors such as the wage, banking, financial, housing management and construction systems (to list only a few) should be conducted. Furthermore, it is necessary to mobilize the initiative of the central and local authorities, as well as that of work units and individuals. Towards this goal, information on the necessity for and the intention of the commercialization of housing should be further disseminated. Also, the study of the positive and negative experiences of the other socialist countries as well as the industrialized countries in dealing with housing problems will, of course, be helpful in handling China's situation.

This paper has endeavoured to present an overview of the housing problem and the issue of the commercialization of housing in China. Some aspects could not be analyzed in-depth since there is little available literature. Clearly, though, in order to attack China's housing problems, more effort should be devoted to the study of the commercialization of housing.

REFERENCES

Carlson, Eric (1986), Housing Finance Development in China: an Overview of Issues and Prospects, Chicago: International Union of Building Societies and Savings Associations.

China City Planning Review (1985), "China's Economic System", Vol. 1, No. 1, November, Beijing, China, pp.76-77.

Davis-Friedmann, Deborah (1978), "Housing Policy: Recent Indications Of Long-Term Trends" in Contemporary China, Vol. 2, No. 2, Summer, pp.71-80, (published for the East Asian Institute, Columbia University, by Westview Press).

Friedman, Beatrice S. (1983), "Public Housing in China: Policies and Practices", in Journal of Housing, Vol. 40, No. 3, May/June, pp.82-85.

Kim, Joochul (1987), "China's Current Housing Issues and Policies", in Journal of the American Planning Association, Vol. 53, No. 2, Spring.

Kirkby, R. J. R. (1985), Urbanization in China: Town and Country in a Developing Economy 1949-2000AD London & Sydney: Croom Helm.

Laurence, J. C. Ma (1981), "Urban Housing Supply in the People's Republic of China", in Urban Development in Modern China, edited by Laurence, J. C. Ma, and Edward W. Hanten, Boulder, Colorado: Westview Press.

Lin, Zhiqun (1986), "On Housing Construction and Consumption" (in Chinese), in Urban Planning, Vol. 8, No.1-4, Beijing, China.

Sun, Jinlou and Lin Liu (1984), Sociology of Housing (in Chinese), Beijing, China.

Sun, Yizeng (1986), "The Best Hour of the Day" (Cartoon), China Daily, September 22, Beijing, China.

Szelenyi, Ivan (1983), Urban Inequalities Under State Socialism, Oxford University Press.

Taubmann, Wolfgang (1985), "Problems of Urban Housing in China", in Development and Distribution in China, edited by Chi Keung Leung and Joseph, C. H. Chai, Selected Seminar Papers on Contemporary China VI, Center of Asian Studies, University of Hong Kong.

Wang, Fuyang (1986), Cartoon, China Daily, September 2, Beijing, China.

Wang, Yuqing (1984), "Summary of the Discussion on Housing Commercialization" (in Chinese), in Urban Problem, Vol.2, No.1, pp.66-67, Beijing, China.